



**COUNTY OF LOS ANGELES  
DEPARTMENT OF AUDITOR-CONTROLLER**

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April 9, 2009

TO: Supervisor Don Knabe, Chairman  
Supervisor Gloria Molina  
Supervisor Mark Ridley-Thomas  
Supervisor Zev Yaroslavsky  
Supervisor Michael D. Antonovich

FROM:

Wendy L. Watanabe  
Auditor-Controller

SUBJECT: **FISCAL REVIEW OF FATHER FLANAGAN'S GIRLS AND BOYS TOWN  
OF SOUTHERN CALIFORNIA - A GROUP HOME FOSTER CARE  
CONTRACTOR**

Attached is our report on the fiscal operations of Girls and Boys Town of Southern California (GBTSC or Agency) from January 1 through December 31, 2007. GBTSC is licensed to operate seven group homes (GH); two in Los Angeles County (County) and five in Orange County. GBTSC's administrative office is in Orange County.

The Los Angeles County and the Orange County GHs have a licensed capacity of 16 and six children, respectively. There were Los Angeles County foster children placed in both the Los Angeles and Orange County facilities during 2007. The two GBTSC group homes located in Los Angeles County are in the Second and Fourth Supervisorial Districts.

The Departments of Children and Family Services (DCFS) and Probation contract with GBTSC to care for foster children placed in the Agency's homes. DCFS paid GBTSC \$5,234 per child per month, based on a rate from the California Department of Social Services, for a total of \$1,602,523 during 2007.

**Scope**

The purpose of our review was to determine whether GBTSC complied with its contract terms, and appropriately accounted for and spent foster care funds on allowable and reasonable expenditures. We also evaluated GBTSC's accounting records, internal

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controls and compliance with applicable federal, State and County fiscal guidelines for GH foster care funds.

### **Summary of Findings**

We identified \$78,867 in unallowable costs and \$9,960 in unsupported/inadequately supported costs. In addition, DCFS and the Agency should work together to resolve some potential overpayments. DCFS should recover any valid overpayments.

We also noted that GBTSC does not allocate its overhead costs to each county on an equitable basis. GBTSC also needs to strengthen its internal controls over accounting, disbursements, deposit funds timely, payroll/personnel procedures and bank reconciliations. Details of our findings are discussed in the attached report.

We recommend that DCFS resolve the questioned costs and collect any disallowed amounts. DCFS should also ensure that GBTSC management takes action to address the recommendations in this report and monitor to ensure that the actions result in permanent changes.

### **Review of Report**

We discussed our report with GBTSC management on November 20, 2008. The Agency will provide their response to the report directly to DCFS. DCFS will incorporate the Agency's response into a Fiscal Corrective Action Plan that will be submitted directly to the Board of Supervisors. We thank GBTSC management and staff for their cooperation during our review.

Please call if you have any questions, or your staff may contact Jim Schneiderman at (213) 253-0101.

WLW:MMO:JLS:MWM

Attachment

c: William T Fujioka, Chief Executive Officer  
Patricia S. Ploehn, Director, Department of Children and Family Services  
Ted Myers, Chief Deputy, Department of Children and Family Services  
Susan Kerr, Senior Deputy Director, Department of Children and Family Services  
Robert B. Taylor, Chief Probation Officer  
Keith Rhodes, Executive Director, Girls and Boys Town of Southern California  
Board of Directors, Girls and Boys Town of Southern California  
Cora Dixon, Bureau Chief, Foster Care Audits Bureau, CA Dept of Social Services  
Commission for Children and Families  
Public Information Office  
Audit Committee

**Girls and Boys Town of Southern California**  
**Fiscal Review**

**REVIEW OF EXPENDITURES/REVENUES**

We identified \$78,867 in unallowable costs and \$9,960 in unsupported/inadequately supported costs. In addition, DCFS and GBTSC need to work together to resolve some potential overpayments. Details of these costs/overpayments are discussed below.

**Applicable Regulations and Guidelines**

GBTSC is required to operate its GH in accordance with the following federal, State and County regulations and guidelines:

- GH Contract, including the Auditor-Controller Group Home Contract Accounting and Administration Handbook (A-C Handbook)
- Federal Office of Management and Budget Circular A-122, Cost Principles for Non-Profit Organizations (Circular A-122)
- California Department of Social Services Manual of Policies and Procedures (CDSS-MPP)
- California Code of Regulations, Title 22 (Title 22)

**Unallowable Costs**

GBTSC incurred \$78,867 in unallowable expenditures:

- \$75,000 in housing bonus paid to the Executive Director (ED) to assist the ED in purchasing a home in Southern California. The bonus was an incentive to get the ED to accept the job with GBTSC. Circular A-122 Section 20 states that the costs of housing, housing allowances and personal living expenses for the organization's officers are unallowable as a fringe benefit, regardless of whether the cost is reported as taxable income to the employees.
- \$3,613 in property tax penalties, late fees and non-sufficient fund charges. Circular Section 16 states that fines and penalties are unallowable costs.
- \$254 for a staff picnic event. Circular A-122 Section 14 states that costs of entertainment, including amusement, diversion, and social activities are unallowable.

**Unsupported/Inadequately Supported Costs**

A-C Handbook Section A.3.2 states that all expenditures shall be supported by original vouchers, invoices, receipts or other supporting documents, and that unsupported expenditures will be disallowed upon audit.

We identified \$9,960 in group home expenditures that were either unsupported, or were inadequately supported. Specifically:

- \$9,541 in inadequately supported costs for gasoline, membership dues, vehicle repairs, restaurants, hotel and phone charges. The Agency provided cancelled checks and credit card statements, but no receipts, or the receipts that were provided were inadequate to substantiate that the expenses were GH related. For gasoline and vehicle repairs, the Agency did not provide vehicle logs to establish that the vehicles were used for GH purposes.
- \$419 in unsupported cost for an equipment purchase. The Agency did not provide a receipt, invoice or other documentation to support this expense. The Agency did not know what this equipment item was. They only knew it was purchased at Best Buy. Therefore, we could not determine if the expense benefited the GH program.

As discussed in the "Allocation of Costs" section of this report, GBTSC does not have a method to allocate costs among its funding sources. As a result, it is likely that some of the questioned costs discussed should be allocated to other counties/programs. Therefore, when the Agency develops a cost allocation plan, DCFS will need to determine the amount of unallowable and unsupported/inadequately supported costs that should be recovered.

**Recommendations**

1. **DCFS management resolve the \$88,827 (\$78,867 + \$9,960) in questioned costs and collect any disallowed amounts.**

**GBTSC management:**

2. **Ensure that foster care funds are used for allowable expenditures to carry out the purpose and activities of the Agency.**
3. **Maintain adequate supporting documentation for all Agency expenditures, including original itemized invoices, receipts and vehicle logs.**

**Potential DCFS Overpayments**

DCFS' records show some potential overpayments. DCFS and the Agency should work together to resolve any overpayments. DCFS should collect any verified overpayments. GBTSC management should also ensure that any future payment discrepancies are immediately reported to DCFS and any excess amounts are repaid promptly.

**Recommendations**

4. **DCFS management work with GBTSC to resolve the overpayments and DCFS collect any verified overpayments.**
5. **GBTSC management ensure that any future payment discrepancies are immediately reported to DCFS and any excess amounts are repaid promptly.**

**CONTRACT COMPLIANCE AND INTERNAL CONTROLS**

We noted several contract compliance issues and internal control weaknesses. DCFS should ensure that GBTSC management takes action to address the recommendations in this report. DCFS should also monitor to ensure the actions result in permanent changes.

**Allocation of Costs**

GBTSC operates seven group homes, a Family Preservation Program, a Family Centered Program and a Food Nutrition Program. The A-C Handbook Section A.2.0 states that an agency should allocate expenditures that benefit multiple programs or funding sources in accordance with a formal cost allocation plan.

GBTSC allocates overhead to all of its programs, including the Group Homes. However, the Agency does not allocate the Group Home overhead cost between the counties that fund the Group Home program.

GBTSC should allocate its overhead costs between the counties that fund its Group Home program in accordance with a formal cost allocation plan (e.g., percentage of revenue or foster child utilization, etc.)

**Recommendation**

6. **GBTSC management allocate its overhead costs between the counties that fund its Group Home program in accordance with a formal cost allocation plan.**

**Accounting and Disbursement Procedures**

We noted the following weaknesses in the Agency's accounting and disbursement procedures:

- The Agency wrote 12 checks totaling \$2,502 to "Petty Cash." The A-C Handbook Section B.2.1 states that checks should not be made payable to cash. The Agency should make these payable to the petty cash custodian.
- The Agency issued two checks totaling \$584 where the check signer and the payee were the same employee. When a check signer is also the payee, the Agency should require a second level of review, along with the reviewer's signature on the check to ensure that only authorized and necessary items are purchased.
- The Agency writes off 10% of their billings to the County as estimated uncollectible amounts at year end. DCFS Contract Section 7.5 indicates that the County will resolve payment discrepancies with the Contractor within 30 days of receipt of the Payment Resolution Notification Form and will provide written notice of payment resolutions. Instead of writing off estimated uncollectible amounts, the Agency should inform DCFS of underpayments at year-end, resolve the billing issues, and write off the actual amount of agreed upon uncollectable billings.

**Recommendations****GBTSC management:**

7. **Ensure checks are not payable to "Cash".**
8. **Require two signatures on all checks where the payee and the check signer are the same employee.**
9. **Resolve billing issues with DCFS and write off the actual amount of agreed upon uncollectable billings.**

**Untimely Deposits**

GBTSC deposited 70% of the checks it received from the County, totaling \$976,867, ten or more days from the date the checks were issued. Seventeen of the checks were deposited 100 or more days from the issue date. A-C Handbook B.1.2 states that cash receipts totaling \$500 or more shall be deposited within one day of receipt. Collections of less than \$500 may be held and secured and deposited weekly, or when the total reaches \$500.

To ensure receipts are not lost or stolen and improve the Agency's cash flow, the GBTSC should ensure that County checks are deposited timely and consider having County payments electronically deposited directly into the Agency's bank account.

**Recommendation**

- 10. GBTSC management ensure that Los Angeles County checks are deposited timely and consider having County payments electronically deposited directly into the Agency's bank account.**

**Bank Reconciliations**

A-C Handbook Section B.1.4 states that monthly bank reconciliations should be prepared within 30 days of the bank statement date and should be reviewed by management for appropriateness and accuracy. Both the preparer and reviewer should sign and date the bank reconciliations.

We reviewed the bank reconciliations for the Agency's bank accounts and noted that the preparer had not signed or dated the reconciliations. In addition, for the Long Beach facility bank account, the reconciliations for October and November 2007 the reviewer did not sign or date the reconciliation. As a result, we could not determine if these reconciliations were prepared within 30 days of the bank statement date.

**Recommendation**

- 11. GBTSC management ensure that monthly bank reconciliations are prepared within 30 days from the bank statement date, and that the preparer and reviewer sign and date the reconciliations.**

**Payroll/Personnel Controls**

CDSS-MPP Section 11-402 requires that supporting documentation be maintained for all program expenditures, including employee salary rates. In addition, A-C Handbook Section B.3.1 states that timecards or time reports must be prepared for each pay period indicating the total hours worked each day by program and total hours charged to each program. In addition, the employee and the employee's supervisor must sign all timecards or time reports. Also, the employee and the employee's supervisor must sign the timecard/time reports in ink to certify the accuracy of the reported time.

We reviewed the personnel files and payroll records of 12 employees and noted:

- Five employee personnel files did not document the employee's current salary or pay rate.

- One employee timecard was missing.
- One employee's supervisor did not approve the timecard.
- Five administrative employee timecards do not show the employee's work hours separated by program as required by the A-C Handbook, and there is no alternate methodology in place to allocate time worked among the Agency's programs.

**Recommendations****GBTSC management:**

12. Ensure employee pay rates are consistently documented and updated in the personnel files.
13. Ensure employee timecards are prepared for each pay period and the employee and the employee's supervisor certify the accuracy of the reported time and sign the timecard in ink.
14. Require that administrative employees record actual time worked on each program on their timecard and develop a formal cost allocation plan to equitably allocate their time among the Agency's programs.

**Semi-Annual Expenditure Reports**

Section 9 of the Contract requires GBTSC to submit to DCFS Semi-Annual Expenditure Reports of its revenue and expenditures for Los Angeles County foster children. The Agency submitted the reports to DCFS for 2007. However, GBTSC reported the total revenue and expenditures for its Group Home program for both Los Angeles and Orange counties and did not break out the Los Angeles County revenue/expense.

**Recommendation**

15. GBTSC management revise the Semi-Annual Expenditure Reports for 2007 to show the revenue and expenditures for Los Angeles County foster children and resubmit the reports to DCFS.